

The Impact of the Detroit Living Wage Ordinance

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Executive Summary

In 1998, a coalition of ninety community, labor, civil rights and church endorsers led by the Metropolitan AFL-CIO placed a living wage proposal on the November Detroit ballot. The ballot initiative passed overwhelmingly with 81% of people voting in favor of the new law.

The specific requirements of the ordinance are:

- Employers who receive over \$50,000 either in yearly contracts or financial assistance for economic development or job growth must pay their employees wages sufficient to meet basic subsistence needs.
- This minimum "living wage" is equal to the federal poverty line for a family of four (currently \$8.35/hr) if the employer provides medical coverage, or 125% of the poverty line if no health care is provided (currently \$10.44/hr).
- To the greatest extent feasible, employers must fill with City of Detroit residents jobs created through the use of public contracts or financial assistance.

Living wage ordinances have been passed in over 35 cities and counties throughout the United States, including such large cities as Baltimore, Boston, Chicago, Los Angeles, and Milwaukee. In Michigan, since the passage of the Detroit living wage ordinance, both Ypsilanti and Ypsilanti township have passed living wage laws. Other towns and cities are currently considering similar measures. The characteristics of the ordinances differ somewhat, but all aim to ensure public money is used to create family-supporting jobs and not to subsidize or perpetuate working poverty.

Findings

Research Method

The researcher used a methodology developed by economist Robert Pollin. In 1996 Pollin was commissioned by the City of Los Angeles to estimate the economic impact of a proposed, and subsequently enacted, living wage ordinance. Since then his method has been standardized and used to evaluate living wage ordinances for such

municipalities as New Orleans and Miami-Dade County. The research develops a comprehensive list of covered employers and then applies governmental industry and census data to estimate employment, increased wage costs, and wage gains.

Who is Covered

- Approximately 585 service contracts with 352 employers were included in the study. The value of these contracts totals \$366 million and employ an estimated 5,786 workers. Of these workers, 2300 (40%) would see wage and/or health benefit gains as a result of the living wage requirements. A similar precise count of workers and firms covered by financial assistance was not possible due to incomplete records. In other cities, financial assistance has covered at least an equal number of workers as through contracts.

Financial Costs of the Living Wage

- The overall costs to employers in complying with Detroit's living wage law are relatively minor. For over half of contract employers, the maximum possible cost increases represent under one percent of the funds they receive for the contracted work. At most, one quarter experience costs equal to 5-9% of the contract value. None would see costs of ten percent or more. Assuming city contracts are only a portion of a firm's business, the actual costs relative to the overall company would be even less.
- Firms covered through such financial assistance as the Empowerment Zone tax programs or the Industrial Facilities Tax Exemption would incur costs under one percent of their annual operating budgets.
- Given the modest costs involved in meeting the living wage requirements, it is unlikely that many city contractors would increase their bids to the city. Yet, even if all of the wage increases were passed entirely to the city, the amount would represent under three tenths of one percent of Detroit's city budget.

- Most non-profit organizations receiving public funds are not covered by the law since their grants or contracts fall under the \$50,000 threshold. The impact for those that are covered range from small to modest (between under 1% and 6.8% of total funds received). The overall aggregate dollar sum to provide living wages for all covered employers appears small. The city could assume the entire costs for a fraction of a percent of its annual budget.

Employment and Investment Impact of the Living Wage

- Given the modest costs involved with living wage compliance there is little reason to believe that employers would alter their employment or investment patterns negatively in response to the living wage law. There is similarly no reason to predict significant price increases.

Benefits from the Living Wage

- In terms of contracts alone, approximately 2300 workers would likely benefit from the living wage. Of these 85% would see immediate wage gains whose average ranges from \$1,312 \$4,439 a year. Additionally, 50% would gain full family health coverage. These figures do not include the likely large number of workers covered through financial assistance received by their employer.
- For covered workers, substantial gains in overall income, the proportion of income coming from wages, and family medical coverage are far greater than the small possible losses in public assistance.
- Firms could see costs gains from higher wages in terms of lower employee turnover and higher worker morale and productivity.
- Social service work constitutes a major area of low wage employment. The living wage law could have a clear impact in this industry -- potentially both raising wages and helping to greater stabilize employment.

Enforcement

- While no comprehensive attempt was made to document employer compliance with the living wage law, selected case studies revealed several employers have not complied with the law since having their contracts renewed. Further research on enforcement and compliance patterns appears justified.

Overall Conclusions

The research results are consistent with the findings from studies of Baltimore, Los Angeles, and Miami-Dade County and with the overall record of the living wage laws passed by 35 municipalities. The maximum potential costs to both the city and employers is quite modest. In return, a modest number of workers will experience clear wage and health care gains. Concerns of job loss, price increases, or loss of investment or contract bidding do not appear justified. While most non-profit organizations do not receive enough yearly public funds to be covered by the law, the impact for those that are range from small to modest. The city has the financial ability to cover these costs with little impact on its overall budget. Questions of enforcement and employer compliance represent a significant issue that merits further study.

Impact of the Detroit Living Wage Ordinance

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I. Background

During the summer of 1998 a coalition led by the Metropolitan AFL-CIO and composed of over ninety community, labor, civil rights and church groups placed a living wage proposal on the November Detroit ballot. The ballot initiative passed overwhelmingly with 81% of people voting in favor of the new law.

The ordinance applies to all employers who receive over \$50,000 either in yearly city contracts or public financial assistance given for the purpose of economic development or job growth. It requires a minimum "living wage" equal to the federal poverty line for a family of four (currently \$8.35/hr) if the employer provides medical coverage, or 125% of the poverty line if no health care is provided (currently \$10.44/hr). To the greatest extent feasible, employers must also fill jobs created by the contracts or financial assistance with City of Detroit residents. In the case of wage violations, the ordinance empowers the city to seek reimbursement of wages not paid, up to fines of \$50 per day per violation, and revocations of the contract or grant. Workers may use the courts to pursue similar remedies. Employers who willfully and repeatedly violate the law may be disqualified from contracts or financial assistance for a period of up to ten years.

Since its passage, the new law has sparked considerable controversy -- raising many questions which this study seeks to address. The research was first proposed and conducted by researchers at the College of Urban, Labor, and Metropolitan Affairs, Wayne State University. Research began soon after the Detroit City Council passed a resolution supporting the study on May 3, 1999.

The research aimed to ascertain the likely impact of Detroit's living wage ordinance. In order to directly evaluate the arguments raised by the controversy over the new law, the research focused upon three major questions:

1. How many workers are covered by the ordinance and what will they likely gain?
2. How much, if anything, will living wage compliance increase costs to the city?

3. What is the likely financial costs to employers in complying with the living wage levels? Are these costs sufficient to justify concerns that employers will decrease their employment of low-skilled workers or that the living wage ordinance might prove a disincentive to business investment in the city.

4. Would non-profit organizations be unfairly harmed by the living wage requirements.

Background on Living Wage Laws

Living wage ordinances have been passed in over 35 cities and counties throughout the United States. The earliest living wage ordinance was passed in Baltimore in 1994. More recently, Los Angeles, Chicago, Boston, Cambridge and Somerville, MA, Minneapolis and St. Paul, Milwaukee, Oakland, and Miami-Dade County, and other municipalities have passed similar ordinances. Last year, San Jose, California passed one of the most comprehensive pieces of legislation, setting their required wage at \$10.75/hr. In Michigan, since the passage of the Detroit living wage ordinance, both Ypsilanti and Ypsilanti township passed living wage laws. Currently, several communities in the Detroit suburbs and in other parts of Michigan are considering similar measures.

Some ordinances cover only companies that contract with the city or county, others cover also recipients of public subsidies, and some cover the public entity itself. While details differ, all ordinances are motivated by the belief that public money should not be used to subsidize or create working poverty or to subsidize employers who pay wages that can not sustain a family. Rather, living wage supporters argue that public money should be targeted to maintain or elevate living standards in the community, especially for those who work year round to sustain themselves and their families.

Theoretical Arguments About Living Wage Ordinances

Arguments concerning the more targeted living wage ordinances are similar to those concerning broader minimum wage legislation. Proponents argue that the lowest waged workers

cannot earn an adequate income without government assistance in the form of a "wage floor"; that the wealth of the country is being more unevenly and inequitably divided; that "living wages" support strong families; that workers gain greater self sufficiency; that governments benefit from a lowered need for social services; that communities will experience increased consumer spending; and that employers gain through higher employee morale and efficiency and a lower rate of worker turnover.

Opponents often argue that the market should be the ultimate determinant of economic distribution. They see deviations from a strictly "free market" approach as creating distortions and inefficiencies. More concretely, opponents argue that a living wage ordinance will prove costly for government; will entail excessive administrative costs; will lead to decreased competition for city contracts; will likely lead to unemployment among less skilled workers; and will send the "wrong signal" to the business community, discouraging investment in the area.

Opposition to Detroit's living wage ordinance has focused particularly on these last two arguments. Opponents claim that covered employers will have little choice but to reduce their use of less skilled workers. They also argue that given other impediments to investing in Detroit, the living wage will further encourage employers to invest in surrounding suburban communities rather than Detroit. Similar claims of a living wage law poisoning the local business climate, driving away investment to the suburbs, and compelling employers to reduce their use of low skilled labor have been made in nearly every municipality that has passed a living wage law. In Detroit, opponents also argue that non-profit agencies receiving grants and contracts from the city to provide valuable services to the community would be unfairly harmed by the living wage requirements -- thus jeopardizing programs for the very working poor the ordinance seeks to aid.

Previous Research on Living Wage Ordinances

Baltimore Studies

Only two studies have examined the "after-the-fact" impact of a living wage ordinance. Both focused on Baltimore, the first city to pass a living wage ordinance in 1994. The Baltimore

ordinance mandated wages of at least \$6.10/hour for all employees of city contractors, with the wage rising in steps to \$7.70/hour in January 1999.

The first study was conducted by the Preamble Center in Washington D.C. in 1996 -- after the living wage ordinance had been in effect for one year in operation. The study found evidence supporting nearly all the claims of proponents, and was unable to find any of the negative consequences predicted by opponents. The main findings were:

- * The real cost of city contracts actually decreased after the ordinance went into effect. For the average contract (weighted by its share in the sample), the decline was statistically significant.
- * Of companies interviewed that held contracts before and after enactment of the law, none reported reducing staffing levels in response to the higher wage requirements.
- * The cost to taxpayers for compliance has been minimal, with the city allocating about 17 cents per resident annually for this purpose.
- * The average number of bids per contract declined from 1994 to 1995, but this decline was not statistically significant, nor did it affect the competitiveness of the bidding process as manifested in actual contract costs.
- * There was no evidence of businesses responding negatively to the passage of the ordinance. In fact, the value of business investment in the City of Baltimore actually increased substantially in the year after the law passed.

The Employment Policies Institute issued a report attacking the Preamble Study. They accused the researchers of fabricating data, excluding relevant information, and essentially lying about their findings. The Preamble researchers have issued a reply to the attack. Subsequent research, including a second independent Baltimore study, have proven the Economic Policies Institute's claims to be without foundation.

The second Baltimore study was conducted by three researchers from Johns Hopkins University and published by the Economic Policy Institute. It examined the impact several years after the law's passage. The overall conclusions were similar to those of the previous study:

- * The living wage ordinance had positive effects on a relatively small number of workers in Baltimore without significant financial cost to the City.
- * Due to the prevalence of part-time and seasonal work, however, living wages did not always amount to living incomes. The report recommended greater consideration be given to increasing and stabilizing the number of hours worked.
- * The small financial impact on the city suggested living wages could be paid more generally in the private and non-profit sectors with relatively low impact on costs and competitiveness.
- * Evidence suggested higher wages and hours improve the stability and reliability of the work force.
- * Non-compliance in terms of paying the living wage and/or providing adequate payroll documentation remained a significant problem, affecting the impact of the living wage ordinance and the ability to analyze that impact.
- * A significant number of covered workers (especially school bus drivers), while experiencing clear wage gains, did not necessarily achieve a yearly living wage as their positions offered only part-time employment.
- * The benefits of the living wage could be threatened by the effects of welfare reform.

The Los Angeles Study and Model

Several studies have been conducted to estimate the impact of a proposed living wage ordinance. The model was established by Professor Robert Pollin, now in the Economics Department at the University of Massachusetts, Amherst. In 1996, the Los Angeles City Council

commissioned Pollin to lead a team of researchers to estimate the impact of the proposed, and subsequently enacted, living wage ordinance. An expanded version of his original study on Los Angeles has been published as *The Living Wage: Building a Fair Economy* by Robert Pollin and Stephanie Luce: New Press, 1998. Pollin's method has been used to examine proposed living wage laws in other municipalities including New Orleans and Miami-Dade County. Our examination of the impact of Detroit's living wage law follows Pollin's basic methodology.

Pollin's Los Angeles study is of especial relevance to an examination of Detroit's law since the living wage ordinances of both cities apply to recipients of financial assistance as well as city contracts. The living wage requirements are also comparable. While the Los Angeles hourly rates are slightly lower, the requirements for mandatory paid vacations offset this difference. Pollin's team developed a comprehensive list of all employers covered by the living wage law. The results of the study are as follows:

- * The study calculated the total cost of the proposed wage increase to affected firms as a percentage of their total output (production of goods and services). The researchers concluded that the ordinance could be implemented without causing a net increase in the City budget, employment loss, or a loss of city services to the residents of Los Angeles.
- * The study quantified potential benefits of the ordinance, including a 50.4% reduction in the amount of government subsidies received by affected workers and their families, as well as growth in spending, home ownership, and small business markets for at least three areas of the city.
- * Researchers documented case studies of successful "high road" employers and predict that the ordinance has the potential to encourage "high road" competition among businesses, characterized by decent wages, increased productivity, reduced turnover, and increased efficiency.
- * The living wage ordinance would not increase unemployment among less-skilled workers in Los Angeles.

- * The living wage ordinance did not place small business at any disadvantage.
- * The ordinance would not discourage businesses from either locating in Los Angeles or doing business with the city itself.

Subsequent experiences in Los Angeles appear to have validated Pollin's research. A year and a half after passing the living wage ordinance, the Los Angeles City Council reviewed the law's impact concluding that none of the scenarios of jobs loss, increased contract bids, or poisoned business climate had occurred. As a result of their review, the council adopted additional provisions to clarify and expand the law's coverage and added additional legal protections to workers who pursued their rights under the living wage.

Chicago Reports

Upon its introduction in 1996, the original proposed Chicago living wage ordinance prompted two studies attempting to estimate its impact. Subsequently, the city adopted a narrower living wage ordinance applying solely to city contracts. Reflecting the polarized nature of the debate, the one study came at the initiative of opponents, the other at the behest of proponents.

The Employment Policies Institute has subsequently released the opposition inspired study as *Economic Analysis of a Living Wage Ordinance* by George Tolley, Peter Bernstein, and Michael Lesage. Researchers surveyed 133 firms and extrapolated the results to develop estimates for all covered employers. While the study was used as evidence for substantiating opponent's claims, its full details suggest different conclusions. The major findings highlighted by opponents were as follows:

- * The city of Chicago would incur costs of \$19.8 million dollars as a result of the proposed living wage ordinance. The study report, however, neglected to place this estimated sum in proper relation to the city's \$4.5 billion annual budget. Thus, the calculations actually confirm living wage supporter's claims that the costs to the city would be negligible. As part of the overall

costs, the study cited the claim by Chicago's Office of Management and Budget that the administrative cost would entail \$4.2 million annually. The basis for this figure was not explained. It is far more (by a factor of at least 10) than the actual budget expenses reported by cities such as Los Angeles or Baltimore for their enforcement administration.

- * Compliance with the living wage would cost employers \$37.5 million per year. Again, when placed in comparison to the overall operating expenses of these firms (certainly many times the Chicago city budget) these costs are actually quite modest.
- * The report pointed to a possible loss of 1,337 jobs. However, this estimate assumed that employers would compensate for wage requirements by simply reducing employment so as to maintain their overall payroll at pre-living wage levels. Obviously, no employer simply reduces employment each time they increase wages. Upon closer inspection, the study's estimates suggest scenarios that are clearly questionable. For example, according to the estimates, airport concessionaires would shed a full one quarter of their work force in response to the living wage! Indeed, the 1,337 estimate directly contradicts the researcher's own discussion of the possible job effects of wage increases. They acknowledge that even in the worst case employers only reduce employment by a fraction of wage increases, not the one-to-one correspondence which they use for their estimates. Furthermore, the research estimates also completely failed to consider yearly profits as an alternative source of funds to cover wage increases. Such a mechanism opens the possibility of higher wages having no impact on employment.
- * The study estimated that for a family of four, with a single income earner, a net income gain of \$1,832 (factoring in reduced public assistance) would be offset by \$7,212 in increased wage expenses to employers. The study did not run estimates for other likely kinds of families covered by the living wage. Such scenarios would lessen the contrast they were trying to highlight. The researchers also used a pre-living wage family employed at the then minimum wage of \$4.25 an hour even

though the median worker effected by the living wage would earn above this amount. The use of the \$4.25 an hour further inflated the actual likely pre-living wage public assistance. Even using their numbers, designed to maximum the desired result, their full numbers show a cash gain for a family of four of \$5,371 -- a substantial increase in direct income.

The Center for Economic Policy Analysis in Chicago conducted a separate study of the proposed ordinance used by living wage proponents. As with the Pollin model, the researchers used industry and census data to calculate employment levels, wages, and costs. However, unlike the Pollin research, they did not construct a data base of actual companies likely covered by the law, but used figures from the city's annual budget listing aggregate contract figures by types of work. The researchers estimated an maximum possible annual cost to the Chicago at \$12 million, assuming that contractors would simply pass on all wage increase to the city.

When the questionable \$4.2 million administrative estimate is subtracted from the Tolley, Bernstein, and Lesage study, their final estimates of \$15.6 million is not that different from the Center for Economic Policy Analysis's \$12 million. In both cases, the maximum costs to the city represented a tiny fraction of the city's overall budget. Indeed, having passed a living wage law, the city has since voluntarily picked up the costs for wage increases for entire categories of covered employers.

Employment Policy Institute

To date, no research has been able to find empirical evidence documenting the negative effects predicted by opponents in any of the 35 municipalities with active living wage ordinances. The Employment Policies Institute is funded by manufactures, retailers, and restaurants and has been dedicated to opposing increases in the minimum wage. For the past several years it has served as a clearing house for materials used by opponents of living wage laws. Thus, it offers the best source for materials or researcher models sympathetic to opposition claims. However, aside from the Chicago Tolley, Bernstein, and Lesage study, their material on the living wage

consists of criticism of the minimum wage -- an issue sharply debated within the economics profession. No further empirical evidence is offered to demonstrate the validity of opposition claims.

Reports on the Living Wage in Michigan

Ypsilanti

Last winter the Ypsilanti City Council requested that its City Manager conduct a review to determine the likely cost impact to the city if it passed a proposed living wage ordinance. The City Manager compiled reports from each city department specifying the contracts covered and estimating the costs to the city for its own compliance with the wage requirements. Although the actual law does not include the city, Ypsilanti has a tradition of applying to itself requirements which it enacts for others.

The report offered no overall conclusions, but simply presented that data obtained from the departments. However, the data did suggest that the living wage would not impose substantial costs to the financially strapped city budget. Subsequent to the report, the city council unanimously passed the proposed living wage law.

Kalamazoo

The City Manager Office for the city of Kalamazoo conducted an internal study attempting to determine the impact of a proposed living wage law. The results were released on December 17, 1998. The only original research conducted by the City Manager Office was a small survey of contractors intended to determine the potential fiscal impact on the city if contractors were required to pay a living wage. Of the 721 firms contracting with the city, the Manager's office mailed surveys to 80. Only 29 returned a response. While well intentioned, the survey violated two basic rules of survey research methodology:

- 1) Bias in Sampling -- with only 29 firms completing the survey, out of 721 potentially covered by the law, the researcher may well have received results from a self-selecting group. The employers most likely to fill out

and return a mailed questionnaire are those who both pay low wages and who oppose a living wage law.

- 2) Biasing the Answers -- in their cover letter the researchers told survey recipients that the results would be used to evaluate the feasibility of a local living wage ordinance. Employers ideologically opposed to the living wage had a clear interest in biasing the results in ways not favorable to the proposed law. Thus, one of the survey's major findings -- that contractors would increase their bids an average of 5% if forced to comply with a living wage -- is based on opinion not hard evidence. It comes from claims made by survey respondents to the question "by what percentage would your bid have increased." Yet, the experience in other cities has shown that employers who opposed to the living wage will inflate its financial impact.

Given the bias toward living wage opponents built into the Kalamazoo survey technique, it is particularly notable that only 12 of the firms surveyed said they would increase contract bids. And all of the respondents said they would keep bidding on city contracts. Among the 29 firms who responded, the number of employees likely covered by an ordinance amounted to 14% of their work force and of these 38% were currently paid below the required living wage. The report did not research the local impact of requiring a living wage of recipients of tax abatements. It's recommendations ruled out such coverage based simply on the vague and undocumented claims made by the opposition that firms would not locate in the city if forced to pay living wages in return for tax abatements. Indeed, the reports recommendations generally do not flow logically from its review of national research or its own local findings.

Fobbs Management & Communications

Shortly after the passage of Detroit's living wage law and at the clear behest of opponents to the law, Kevin Fobbs conducted a survey of area non-profits purporting to show their concern over the law's negative impact on them. The study, however, is completely without scientific merit. At no point did Fobbs provide survey respondents with factual information concerning the law and its provisions. Instead, his two page cover letter simply explained why

the law would hurt them. In other words, Fobbs sent local non-profits a diatribe against the living wage and then asked them if the law would cause cuts in services, reduced employment, or cost increases in their budget. Not surprising given the cover letter's overt political bias, only 54 out of 122 of those surveyed returned results. Incredibly, given the direct attempt to bias the results, less than half of those who did respond (25) expressed any concern over the law's impact on them.

The Detroit Chamber of Commerce

In March 1999, the Detroit Chamber of Commerce released a report entitled the *Economic Consequences of Detroit's Living Wage Ordinance*. The report echoes the claims made by the Chamber that Detroit's living wage law will cost the city money, reduce employment among low skilled workers, and provide a disincentive for firms to bid on contracts. However, as the authors readily acknowledge, their conclusions are not based on any concrete analysis of empirical data on Detroit and covered employers. Instead, they rely on abstract economic models and general claims about how firms react to wage increases. Thus, the report is entirely theoretical. They make no mention of the two Baltimore studies nor the Pollin research. Furthermore, their model of business financial behavior completely eliminates profits from consideration - treating all employers as if they were non-profit organizations. Obviously, removing the for-profit nature of most covered employers from the discussion will produce a greater trade off between wages, employment, and prices than would be true if firms' entire financial operations were considered.

In making their claims, the authors repeatedly rely on what they call the findings of "standard economic analysis". However, they provide very few references to document the concrete body of knowledge they refer. However, such references are needed as the economics field is sharply divided over questions related to the employment impact of wage increases. The authors assume a standard consensus that does not exist.

The one concrete research area which they do reference concerns the impact of increases in the minimum wage. One of the reports' authors,

David Neumark is one of its main antagonists in this debate nationally. In 1995, David Card and Alan Krueger published *Myth and Measurement* in which they challenged the argument that increases in the minimum wage will produce employment loss. The authors had examined the impact of the New Jersey minimum wage increase on employment in the wage sensitive fast food industry. Comparing the New Jersey experience to neighboring Pennsylvania (which had not increased its minimum wage), Card and Krueger could find no evidence of job loss as a result of the New Jersey increase. David Neumark co-authored a study which used a different data set to re-examine the New Jersey experience to find evidence of job loss. However, this research caused considerable controversy as the author's original data base came from the Employment Policies Institute which has substantial connections to the restaurant industry. The data sample appears to have been biased in favor of showing job loss. Subsequently, Neumark developed his own independent data base using a method similar to Card and Krueger. Even when merged with the biased Employment Policies Institute data, this later research revealed far less employment loss.

While the Chamber of Commerce study authors discuss the Card and Krueger research, they erroneously claim that all subsequent research on the minimum wage has show job losses. Their sole reference, however, is to co-author David Neumark's work. This ignores two other recent studies which provide further evidence that increases in the minimum wage have not lead to job loss (Jared Bernstein and John Schmitt *Making Work Pay: the Impact of the 1996-97 Minimum Wage Increase* and Jeff Thompson and Anna Braun *The Effects of the Minimum Wage Increase on the Restaurant Industry*).

The report suggests an expansion of the Earned Income Tax Credit as an alternative to the living wage law. It is not our place here to take up the relative merits of such a program. However, from the view point of living wage supporters, the Earned Income Tax Credit can only serve as a compliment, rather than an alternative to the living wage. As proponents argue, the living wage ordinance was developed specifically to reduce the double public subsidy in which employers benefit from public contracts and financial assistance from tax payers and then

receive a second benefit in public support for their workers paid wages below the poverty line. By itself, an Earned Income Tax Credit would simply enhance the public subsidy for poverty wages paid by already subsidized employers.

The Chamber of Commerce report concludes by stating that "definite quantitative statements cannot be made about the economic effects the Detroit Living Wage Ordinance will have on workers, employers, and the city without more detailed analysis." They recommend a study that "would begin with acquiring from the city a list of firms doing business with the city or receiving grants or tax preferences." The present study does just this using the Los Angeles methodology -- the model most utilized by municipal government to estimate the impact of their proposed living wage laws.

II. COSTS OF THE DETROIT LIVING WAGE ORDINANCE

The straight labor cost increases from a living wage ordinance are easier to determine than some of the benefits, which flow back to the city and its residents through numerous economic and governmental channels. Therefore, while this report calculates increased labor costs first, the overall impact can not be judged properly until the full set of both costs and benefits is calculated.

Focus of Investigation

The Detroit living wage ordinance applies to both city contracts and to financial assistance given for the purposes of job creation or economic development. The research focused primarily on city contracts for which a comprehensive list of employers covered by the living wage law was compiled. Time and resource constraints, as well as the lack of availability of some of the data, prevented the compilation of a similar list for financial assistance. This category includes both private employers receiving aid, such as tax abatements and/or Empowerment Zone tax credits, and the non-profits which receive Neighborhood Opportunity Funds. While not detailing financial assistance to the same extent as contracts, the research was able to use a similar methodology to estimate overall relative costs to the kinds of employers covered through financial assistance.

1. The Living Wage Impact on City Contracts

Profile of City Contracts

In order to determine which city contracts are covered by the proposed ordinance, a copy of all city contracts in effect during June 1999 was constructed (many, of course, were multi-year contracts extending well before or well beyond the year 1999). Using contract titles as a guide, "service" contracts (as opposed to contracts delivering material goods) were determined.

The contract information was taken from city council records. Since these files did not always specify whether a given contract was rejected or approved, a small number of contracts not actually enacted may have been included.

However, the possible inclusion of a few moot contracts simply biases the estimates toward overstating the costs. A modest number of city records did not give complete information on the purpose, size, and dates of some contracts. Therefore, a few contracts which should have been included may have been missed, or perhaps a few contracts which did not belong included. Some contracts whose funding may run for several years may have been counted as single year contracts because their end date was not specified. Once again this would only serve to over estimate costs. Evidence also suggests that a few cases of contracted work above \$50,000 may not have passed through the city council. Since this is not supposed to happen under city rules, we assumed these cases were exceptional. Where possible missing information was obtained by directly contacting the departments responsible for overseeing each contract. Therefore, the resulting list does provide a close approximation of the local service contracts held by the city in 1999.

As Table 1 details, 585 contracts listed were totally or primarily for services and awarded to employers who received over \$50,000 in yearly contracts from the city -- thus qualifying them for coverage under the living wage law. These 585 contracts provided 352 employers over \$360 million in business with the city. These totals include 127 construction, demolition, and asbestos removal contracts, valued at \$150 million. The wage levels for much of such construction work is already regulated under the city's prevailing wage law. Thus, in many cases wages should already be above the living wage requirements. Since we have chosen to error on the side of overestimating the impact, our calculations include these jobs without any attempt to adjust them for the prevailing wage. We did, however, use wage data for Detroit-specific construction employment. These figures thus incorporate the general influence of local, state, and federal prevailing wage laws on the local industry generally.

Table 1 -- Summary of City Contracts

Type	number of firms	number of contracts	total value of contracts	total estimated employment on contracts
Landscaping & lawncare	6	6	\$1,697,771	48
Construction	66	102	\$126,530,828	1193
Asbestos removal & demolition	15	25	\$24,069,911	262
Printing	1	1	\$87,397	1
Transit	3	5	\$1,021,647	28
Transportation & storage	8	8	\$2,271,764	21
Waste Removal	9	10	\$7,062,720	37
Secretarial	1	1	\$850,000	17
Janitorial	7	27	\$3,786,877	106
Laundry	1	1	\$250,000	6
Computer services	14	14	\$34,038,022	368
Security	4	7	\$2,045,271	100
Parking	2	2	\$2,666,667	39
Car Wash	1	1	\$111,500	4
Auto repair	11	16	\$2,081,500	28
Misc. Repair	35	60	\$23,511,988	280
Recreation, youth camp, amusement	4	4	\$383,020	5
Health services	7	9	\$17,588,969	285
Legal services	16	53	\$9,209,104	79
Educational services	14	17	\$5,735,203	97
Social services	104	153	\$73,047,313	2,460
Engineering, Accounting, Research, Management & other professional	55	63	\$30,897,684	321
Total	352	585	\$366,947,156	5,786

Number of Workers Covered Through City Contracts

The pool of 585 contracts were assigned federal SIC (Standard Industrial Classification) numbers to indicate their industry. SIC numbers were double checked by comparing the SIC number assigned to the one given for the contracting company in Dun and Bradstreet's "Disclosure" data files and corrections were made. Each contract was then given a "yearly" cost -- e.g., a \$300,000 three year contract was given a yearly cost of \$100,000, a \$1 million four year contract was given a \$250,000 yearly cost.

These yearly cost figures were converted into approximate employment for each contract by consulting federal census data for Detroit and determining the number of employees per \$100,000 of sales. For example, if there were 3 employees per \$100,000 of sales, and if the contract was for \$300,000 per year, the contract was considered to have 9 (3 X 3) employees working on it. Thus, the approximate number of employees working on each service contract was determined. Total employment for the 585 contracts was approximately 5,786. This calculation assumes that city contractors employed the same proportion of workers as similarly sized businesses in their industry generally.

To determine what percentage of these 5,786 workers were being paid less than specified living wage levels, the 1997 Current Population Survey, Outgoing Rotation Group files for the City of Detroit was consulted. Raw census data was used; figures were not determined from averages or distribution charts. To directly compare this 1997 Census data, federal poverty guidelines for that year, rather than 1999, were used to calculate the living wage levels. One hundred percent of the poverty line for a family of four in 1997 was \$16,050/ year. When calculated at 2000 work hours per year, this figure becomes an hourly rate of \$8.03. If health care is not provided the living wage law requires a wage of 125% of the poverty line, \$10.03/hour.

Table 2 shows that an estimated 1940 workers on city service contracts (one third of the total) were earning below the living level wage of \$8.03 per hour. Using Census data, the research calculated the average wage increase per worker

by industry necessary to bring each individual up to the living wage requirements. Again, the research assumes that the employment policies of contracted employers are no different than the overall behavior of their industry. The results are shown in column three of Table 2. The number of workers likely to receive health benefits not previously offered due to the living wage requirements was also estimated. Column five shows 1,193 workers who earned under \$10.03/hr did not receive health benefits. This includes those earning below \$8.03 who would also see wage gains and those between \$8.03 and \$10.03 for whom the employer could simply provide health insurance. Overall, approximately 2300 workers on city contracts will gain directly from the Detroit living wage ordinance.

One third of workers employed on city contracts are paid less than the living wage level. Another 360 are paid between 100 and 125 percent of the poverty line and do not receive health insurance. Table 2 shows that sixty percent of the workers likely to gain from the living wage requirements (1403 out of 2,30) are in jobs that we have classified as social services. As we will explained in greater detail in the section on non-profits, roughly half of this category includes contracts for job training and job search. These jobs could have been categorized as education rather than social services. Such an alternation would cut the figures of workers effected in social services almost in half and increase the figures for education by almost seven fold. Since the two categories have quite different wage levels, such a change would reduce the number of workers expected to gain from the living wage requirements and the overall costs of compliance. Because the main concerns expressed regarding the living wage focus on costs, these contracts were included in the more expensive category in order to error on the side of overestimating, rather than underestimating costs.

Table 2 -- Number of Contract Workers Earning Below the Living Wage Requirements

Type	total # of workers covered	# below 100% poverty line	average yearly increase if paid 100% poverty line	# without health insurance	total workers with direct wage & insurance gains
Landscaping & lawncare	48	27	\$2,663	20	29
Construction	1,193	203	\$2,344	87	285
Asbestos removal& demolition	262	45	\$2,344	19	63
Printing	1	0	\$4,039	0	0
Transit	28	14	\$2,227	0	14
Transportation & storage	21	4	\$3,528	0	4
Waste Removal	36	3	\$3,397	0	4
Secretarial	17	2	\$3,094	3	4
Janitorial	106	35	\$3,094	34	46
Laundry	6	3	\$4,439	3	4
Computer services	368	0	\$3,094	18	18
Security	100	52	\$3,094	43	61
Parking	39	14	\$2,950	12	17
Car Wash	4	1	\$3,145	1	2
Auto repair	28	5	\$2,356	5	6
Misc. Repair	280	140	\$2,606	120	168
Recreation, youth camp, amusement	5	4	\$2,606	3	4
Health services	285	74	\$2,635	49	89
Legal services	79	8	\$1,312	7	11
Educational services	97	19	\$2,053	12	23
Social services	2460	1255	\$3089	727	1403
Engineering, Accounting, Research, Management & other professional	321	32	\$2,763	29	46
Total	5786	1940		1193	2300

Costs of Compliance With the Living Wage Ordinance

Based on the above employment figures, the research estimated direct increases in wage costs to service contractors for complying with living wage requirements. The results are shown in Table 3. The costs break down as follows:

1. Direct Wage Increases

The costs of direct wage increase was estimated by multiplying the number of workers earning wages below the law's 100% poverty line requirement by the average wage increase necessary to bring them up to 100%. We used the raw census data to determine the average wage of workers below the living wage amount. To obtain a yearly cost, the figure per hour per worker was multiplied by the average hours worker per worker in that industry -- both calculated from the 1997 Population Survey.

2. Health Insurance

The living wage law requires a 25% higher wage (\$2 an hour more) if an employer does not provide health insurance. However, Wayne County, which includes Detroit, offers a subsidized, low-cost health care package, Health Choice, for firms with employees paid less than \$10 per hour. This package is available to all firms covered by the living wage requirements. The cost to fully cover a married employee working full time with a family of two minor dependents is \$154 per month or 92 cents per hour at full time work. For a single employee the rate drops to 47 cents an hour. These rates are significantly lower than the 25% higher wage. Therefore, it is assumed that employers will provide health insurance rather than pay the higher wage. For the purposes of this research, calculations are based upon the costs for a family of four. However, many workers covered would have smaller families, and these estimates are likely to overstate the costs.

3. Payroll Tax Costs

In addition to direct labor costs, payroll taxes would also increase. The research used an average of 13.25% to estimate the payroll tax costs (FICA of 7.65%; unemployment compensation at 3.3%; and workers compensation at 2.3%)

Adding all elements together, the total costs for bringing all city service contract workers

up to the required living wage levels is just over \$6.9 million. In addition to these direct costs, there may be additional "indirect" costs. This phenomenon, known as the "ripple effect," refers to any pay increases employers may give beyond those mandated by the ordinance. For example, in order to maintain a wage spread between more skilled and less skilled workers, employers may give some workers presently below the mandated living wage level a larger wage increase. For similar reasons they might increase the wages of workers already earning above the living wage levels.

Research into the ripple effect from increases in the minimum wage has found the effect diminishes rapidly as pay rates go up. In other words, wages become more equal within affected firms. (See Katz and Krueger; Lacroix and Dussault in the bibliography). However, minimum wage ripple effects may not exactly approximate those arising from passage of a living wage ordinance. There is no question that legislated wage "floors" compress wages and increase equality among wage earners. However, there is considerable controversy regarding the degree of such an effect, and there is little evidence or agreement about the size of any ripple effect.

Due to the subjectivity required when judging the size of a possible ripple effect, such an analysis will be left out of this report. The report's bias in favor of overestimating costs during calculations already provides a margin that could cover this potential effect. Because the living wage ordinance does not cover all workers in an affected labor market, unlike an increase in the minimum wage, the ripple may be rather small. For his Los Angeles study, Robert Pollin placed the possible of ripple effect of that city's living wage law between a low of \$3.9 million and a high of \$10.8 million -- the variations coming from changes in the assumptions used to estimate the amount. For his final calculations, Pollin used a median figure of \$7.3 million. The \$7.3 million resulted in additional costs of approximately 20%. Adding in this effect, the estimated cost of the Los Angeles living wage ordinance still ran well below one percent of covered firms' annual operating budgets. Bruce Nissen placed an estimated ripple effect range for Miami-Dade County between zero and two million dollars with a midway point of 17 percent in additional costs.

Table 3 -- Costs of Compliance with the Living Wage Law

Type	# of workers directly effected	cost to upgrade workers to 100%	cost to provide health insurance	total costs	cost as percentage of the total contract
Landscaping & lawncare	29	\$80,291	\$3,075	\$83,366	4.9%
Construction & demolition	285	\$538,463	\$139,059	\$676,521	0.6%
Asbestos removal	63	\$118,409	\$30,366	\$148,769	0.6%
Printing	0	\$1,315	\$4	\$1,320	1.5%
Transit	14	\$35,172	\$0	\$35,172	3.4%
Transportation & storage	4	\$17,064	\$0	\$17,064	0.8%
Waste Removal	4	\$9,892	\$0	\$9,892	0.1%
Secretarial	4	\$5,897	\$3,076	\$8,973	1.1%
Janitorial	46	\$122,606	\$16,168	\$138,774	3.7%
Laundry	4	\$16,119	\$788	\$16,908	6.8%
Computer services	18	\$0	\$27,988	\$27,988	0.1%
Security	61	\$182,976	\$13,032	\$196,008	9.6%
Parking	17	\$47,467	\$3,323	\$50,791	1.9
Car Wash	2	\$4,705	\$329	\$5,034	4.5%
Auto repair	6	\$12,557	\$2,830	\$15,387	0.7%
Misc. Repair	168	\$412,903	\$33,586	\$446,489	1.9%
Recreation, youth camp, amusement	4	\$10,452	\$238	\$10,691	2.8%
Health services	89	\$221,488	\$21,941	\$243,429	1.5%
Legal services	11	\$11,772	\$5,869	\$17,641	0.2%
Educational services	23	\$45,343	\$3,147	\$48,490	0.8%
Social services	1403	\$4,390,416	\$213,916	\$4,604,332	6.2%
Engineering, Accounting, Research, Management & other professional	46	\$100,556	\$19,942	\$120,498	0.4%
Total	2300	\$6,385,863	\$537,671	\$6,923,538	2.5%

Maximum Costs to the City of Detroit

Assuming the unlikely scenario of city contractors passing the entire costs of compliance onto the city through increased contract bids, the most the living wage law could cost the city would be \$6.9 million or less than three tenths of one percent of the city's \$2.5 billion annual budget. However, none of the thirty five cities which have enacted living wage laws report any significant increase in overall contract levels resulting from the living wage requirements. Indeed, the two studies done on Baltimore both found that contract bids had increased *below* the rate of inflation following the passage of the living wage ordinance. The findings in the present study on the maximum costs to firms, given below, suggests that, as in other cities, most contractors will likely absorb all living wage costs themselves.

In addition, the city will incur monitoring costs. While the Chicago Office of Management and Budget estimated a yearly administrative expense of \$4.2 million, the basis of this figure has not been detailed and seems far out of line with the costs report by cities which have actually implemented a living wage law. After passage of the living wage ordinance in Los Angeles, that city hired five management analysts to be compliance monitors. Nationally this program represents one of the more elaborate enforcement efforts. It includes a training program for workers covered by the living wage law. Even assuming that Detroit, a smaller city with fewer covered employers, were to hire an equal number of analysts, and setting their wages at the rate of \$50,000/year (both assumptions may be too high), this would add \$250,000 to the city's payroll. Adding 15 percent for overhead costs such as rent, secretarial support, office expenses, etc., brings the total to \$287,500. Further inclusion of costs for benefit packages and the like, the costs for direct city monitoring are still quite small. In 1996, the city of Baltimore allocated \$121,000 for living wage enforcement out of its \$2 billion annual budget.

Maximum Costs to Employers

Assuming contractors pay for the living wage costs (employers covered through financial assistance must), research calculated the total cost burden to employers as a proportion of the total contract amount they received from the city.

These figures represent a maximum cost and do not factor in any potential cost savings resulting from reduced employee turnover and/or higher productivity. The maximum costs, given by industry, are shown in the last column of Table 3. None of the estimates reach 10 percent. Table 4 arranges this information by the number of contractors effected at three different levels. We should note that this ratio is in terms of the contract amount. Since only a portion of any given employer's business is city contracts, the costs relative to their overall operating budgets is likely to be only a fraction of the ratio to contract value.

Thus, over half of the contracts, with two-thirds of all contract dollars, will likely experience an impact under one percent of the total paid to the contractor. Excluding possible productivity boosting effects from the pay increases, if these contractors simply experience the average yearly productivity increase of non-farm businesses in the U.S (1% annually over the past 30 years), such gains will pay for the living wage compliance costs in one year. Given any efficiency gains from the living wage levels, these firms will likely benefit from the living wage in terms of their overall costs.

The remaining contractors, with one third the total contract value, will likely experience a low to medium impact. Although the Baltimore research suggests otherwise, an argument could be entertained that some of this impact might be passed on to the city. Robert Pollin, however, concluded that Los Angeles contractors would probably absorb all cost increases up to 10%. Proceeding more conservatively and estimating these companies pass half of the living wage costs on to the city, the total costs are \$2.9 million -- eight tenths of one percent of the total spent by the city on contracts and one tenth of one percent of the entire Detroit budget.

Table 4 -- Impact of the Maximum Living Wage Costs to Employers

Impact	Number and % of Contracts	Value and % Total Value of Contracts
Small (under 1%)	308 (53%)	\$239,898,736 (66%)
Low (1-to under 5%)	116 (20%)	\$51,705,836 (14%)
Medium (5 to under 10%)	161 (27%)	\$75,342,584 (20%)
High (10% or more)	0	0

2. Employers Receiving Financial Assistance

The method used for service contracts can, with modifications, be used to estimate the impact on firms effected by the living wage law's coverage of financial assistance. This section covers private, for-profit employers; non-profits are discussed in the following section.

The Nature of the Firms Covered

Private firms that receive tax abatements from the city and those benefiting from tax credits in the Empowerment Zone are two examples of employers required to pay a living wage. The law's requirements only apply at the facilities receiving the financial assistance. Such firms are likely to incur costs well below the amounts estimated for contractors. When compared to overall industry, the service contract work contains a disproportionately high number of occupations with lower wage scales. According to the National Priorities Project's analysis of federal data, half of the twenty occupations with the largest job growth in Michigan pay average wages under the poverty line for a family of four. Five of these ten are included in the Detroit contract list (guards; janitors; orderlies, nursing aids and attendants; stock clerks; and teachers aides and educational assistants). The other five are related to the food and retail industries. Since many of the firms receiving tax abatements and/or locating in the Empowerment Zone are in areas such as manufacturing with traditionally higher pay scales, the costs of their compliance with the living wage law is likely to be far less than figures found for the contracts investigated. In Los Angeles, for example, Robert Pollin's

estimates indicated costs of less than one percent of firms' overall operating budgets.

Limited Records Kept

It was not possible to comprehensively document the individual firms receiving over \$50,000 of financial assistance. Such information is often not kept and when it is available the absence of a central source containing information on financial assistance make research difficult. Various programs are scattered throughout different parts of the city administration. Given more time and resources, it would be possible to piece together the information that is available. However, in at least one major case the information simply does not exist. Employers located in Detroit's federal Empowerment Zone are eligible for four different tax breaks: a federal deduction for employing residents of the Empowerment Zone, an increased federal deduction for depreciable property, a state property tax discount, and a new category of federal, tax-exempt, private activity bonds. No records appear to exist compiling which firms receive which tax breaks or the level of the tax benefits received. Staff at both the local Empowerment Zone office and the federal Housing and Urban Development offices expressed their frustration with regards to not having access to such information. The data is documented only as part of each individual firm's tax returns. It thus remains generally inaccessible in separate files at federal and state record offices. Empowerment Zone staff explained that such information would aid their recruitment activities by allowing them to share with firms considering moving into the zone examples of the companies that have benefited from the federal and state Empowerment Zone tax programs.

Cost Data by Industry

While documenting individual firms was not possible, the methods used to analyze city contracts can be applied to estimate the impact of living wage requirements in relative proportion to the amount of business produced within a given industry. Using a list of the firms that have located in the Empowerment Zone, the research selected those eligible to apply for the special tax programs. (Projects that centered around, for example, residential building renovation were excluded). Assuming they receive tax breaks that total more than \$50,000 annually, these firms would be required to comply with the living wage law since the Empowerment Zone's mission falls within the category of job growth and economic development. As with contracts, we divided firms into the standard industrial code categories. Using federal data, the impact of the living wage law on these firms was calculated at a hypothetical hundred million dollars of yearly business. The results are shown in Table 5.

The relative costs for potentially covered Empowerment Zone firms is less than one percent of their overall output. Most are in manufacturing and many focus on the automotive industry. The profile of firms receiving the Industrial Facilities Tax Exemptions given by the City of Detroit is similar to the manufacturing focus found in the Empowerment Zone. As two main programs used by the city for "economic development and job growth," the above cost estimates are arguably representative of the living wage law's application to for-profit employers benefiting from financial assistance generally. Thus, the costs of complying with the living wage law because of financial assistance appears modest. Certainly, these findings suggest that concerns that employers would reduce employment or chose not to invest in Detroit because of the living wage requirements seem unjustified. The cost levels are simply too modest to have such an impact.

Table 5 -- Estimated Impact of the Living Wage Law on Empowerment Zone and Similar Businesses per Hundred Million Dollars of Business

Type	# Firms listed as part of Zone	total employment	# Workers Wage and Health Gains	Cost of Additional Wages	Cost of Additional Health care	Total Costs	Costs as % of Overall Output.
Automotive Manufacturing	10	468	103	\$337,900	\$46,120	\$347,010	0.3%
Metal Fabricating	6	1180	275	\$852,860	\$116,390	\$969,250	0.96%
Machinery Manufacturing	1	720	167	\$520,390	\$71,050	\$591,440	0.6%
Misc. Manufacturing	3	848	198	\$612,910	\$76,070	\$629,440	0.6%
Warehousing and Food Distribution	4	940	230	\$751,150	\$229,360	\$980,510	0.98%

3. The Living Wage and Non-profit Organizations

While our analysis of city contracts did not distinguish between for-profit and non-profit businesses, a significant portion of contracts for social services, health services, and education come from non-profit organizations. In addition, non-profits may possibly be affected by the living wage law if they receive more than \$50,000 of Neighborhood Opportunities Funds which the City of Detroit allocates to local organizations. The below analysis first focuses on the contracts, and then the Neighborhood Opportunity Funds.

Non-profit Contractors

Table 6 isolates the cost and coverage data for those categories most likely to involve significant number of non-profit organizations. Overall, the estimated costs total \$4.9 million. The costs relative to the contract, however, vary considerably from under one percent to 6.8 percent.

Nearly half of the covered employees work under contracts placed under social service training and education. These contracts were the most difficult to categorize. Contract descriptions included "training", "job training", "job search", and "employment". Their designation as social services may not reflect the actual pay levels of these firms. The category educational services may more accurately reflect this employment. Since training and education cost percentage are significantly higher for educational services, choice of placement does impact the overall cost figures.

Keeping in mind this important qualifier, the research nevertheless suggests that some significant proportion of the jobs categorized as social service work do pay below the poverty line. This category includes both for-profit and non-profit organizations. The costs to bring covered workers up to the living wage requirements run between 5.5% to 6.8% of the contract. These potential costs could be offset by potential benefits, however. For example, the non-profit social service sector experiences serious problems with employee turnover. Raising wages and benefits to levels required by the living wage law could aid employers' ability to retain experienced personnel.

Assuming the city officials concludes that, at least for some non-profits, the immediate costs are too burdensome for non-profit organizations to cover alone, the city can respond with one of several options used successfully by other municipalities with living wage laws.

1. Empower the city council to exempt non-profits who demonstrate that the living wage requirements would cause unreasonable economic harm (provision used in Ypsilanti and Ypsilanti Township ordinances).
2. Exempt non-profits within a given formula. Los Angeles exempts non-profits whose highest chief executive officer earns a salary which, when calculated on an hourly basis, is less than eight times the lowest wage paid by the organization.
3. Supplement the grant or contract given to a non-profit to aid the organization in achieving living wage levels (used in Chicago and Madison, WI). The estimates for total living wage costs for social service contracts, both to for- and non-profit employers, is \$4.6 million. Relative to the city budget (\$2.5 billion) this is less than two tenths of one percent.
4. Combine #1 and #4 -- non-profits who feel they would be unreasonably harmed by the living wage requirements could apply to the city as in #1. The city would first consider the feasibility of increasing the contract amount to cover the additional costs. If not able to do so, it may then grant an exemption.

Neighborhood Opportunity Funds

The other way non-profits could be covered by the living wage requirements is through the Neighborhood Opportunity Funds. An inspection of the 1997 and 1998 lists for such grants revealed that roughly ten percent of the almost four to five hundred organizations who received Neighborhood Opportunity Funds annually obtained grants of \$50,000 or more. Thus, most of these non-profit organizations are not covered by the living wage requirements due to the law's threshold. Of the ten percent potentially covered, it is unclear what proportion receive grants for "economic development or job growth" as specified in the living wage law.

Depending upon the interpretation, none may covered. Assuming that some of the ten percent do fall into this category, the number of organizations effected would be below fifty. The mechanism adopted to address the needs of non-

profit contractors could be extended to Neighborhood Opportunity Fund recipients for costs less than those estimate for social service contracts.

Table 6 -- Social and Human Service Contracts Covered By the Living Wage

Type	# of contracts	total contract value	% of social service contract value	total employment	# of workers directly effected	total costs	cost as percentage of total contracts
Social Services							
Individual & Family	74	\$20,583,299	28%	677	386	\$1,267,237	6.2%
Training & Education.	59	\$40,000,824	55%	1,316	750	\$2,462,702	5.5%
Misc. Social Services	20	\$12,463,190	17%	467	266	\$874,393	6.8%
Human Services							
Educational Services	17	\$5,735,203	-	97	23	\$48,490	0.8%
Health Services	9	\$17,588,969	-	285	89	\$243,429	1.5%

III. LIKELY BENEFITS OF A LIVING WAGE ORDINANCE

There are at least three possible beneficiaries from the living wage ordinance. First, of course, the workers and their families could benefit from pay increases and health insurance. Second, covered employers could benefit from increases in morale, lower turnover, etc. from the higher wage. And third, the taxpayers and citizens of Detroit could gain through decreased taxpayer-supported subsidies to maintain workers and their families and through increased spending in their communities. Each benefit is discussed in turn.

Benefits to the Affected Workers and Their Families

Living wage proponents argue the law will provide concrete and meaningful benefits to workers covered by the law. Our research suggests that an employee who benefits from the living wage will gain on average from \$1,312 to \$4,439 per year in income. Half the employees will also gain full health benefits. Opponents, however, have argued that such wage gains will be offset by losses in public assistance.

Ideally, the total income and benefits for various representative categories of covered families could be calculated before and after the living wage requirements are applied. Unfortunately, inquiries to the Family Independence Agency failed to produce concrete sample data. However, even without sample calculations several clear conclusions can be drawn.

The Tolley, Bernstein, and Lesage Chicago study, utilized by living wage opponents to cite large offsetting losses in public assistance, based its calculations on three major programs: the Earned Income Tax Credit, Medicaid, and food stamps. For their estimates they chose the example that maximized the use of public assistance: a minimum wage worker who was the sole supporter of a family of four. National figures show slightly over half of very low wage workers have a second wage earner in their family. And the average size of a low wage family is between 2 and 2.5. Such families receive less government subsidies than a family of four. Even using the family of four case designed to maximize the potential benefit loss,

the researchers estimated the Earned Income Tax Credit difference at only \$615 a year. The Medicaid reduction is not relevant since, as we argued above, employers will likely provide health insurance for all covered workers. This plan would be equal to or superior to Medicaid.

This leaves food stamps as the major program in which wage gains might be offset by reduced public assistance. Access to this program, however, has become increasingly less relevant for Michigan families. According to the Michigan League for Human Services, between 1994 and 1998 the state food stamp case load dropped by 110,710 families to 300,547. During this period both benefit levels and eligibility was reduced. For example, today a family of three receiving a Family Independence Agency grant would have its case closed once its earned income reached a mere \$9,300 a year. Since any full time job exceeds this amount it is likely that most of the workers covered by the living wage are already passed the FIP limits.

Thus, most of the increases in wages from the living wage law will not likely be offset by decreases in public assistance. Indeed, the erosion of public assistance in Michigan seems to justify living wage proponents argument that workers need wages sufficient to support a family. Furthermore, even the modest proportion to which wage increases might be offset by reduced public assistance does not come without overall gains to the affected family. As the percentage of a person's income comes from their own earnings increases so does the family's access to bank loans and other forms of credit, not to mention their dignity. The research into the Baltimore ordinance provides abundant evidence of this later effect. The reports include quotations from employees and other evidence that workers' attitudes toward their jobs and their lives improved after passage of the ordinance.

Even families with both wage earners in low income jobs may be unable to make ends meet. The official poverty level is way out of line with actual poverty, if by the term poverty we mean ability to survive at a minimally decent standard of living, as it meant when official poverty statistics were first calculated in 1955. Because the official calculation of the poverty level depends on an outdated formula, the government has been progressively lowering the living standards required to be below the poverty

threshold. If the poverty level were updated to be congruent with the standards used in the original 1955 calculation, the poverty level for a family of four in 1994 would have been about \$26,000 per year, not the \$15,100 actually used in 1994. (Schwarz and Volgy, 1992). Leaving no allowance for entertainment, vacations, child care, or savings; using stringent food budget allocations allowing no more than \$1 per meal per family member; and assuming that a 10 year old car will never break down; earnings of \$25,000-\$26,000 barely cover the 1994 expenses of a family of four (Michigan League for Human Services). Therefore, even dual earner families in low wage occupations have much gain from living wage increases.

Benefits for Firms Covered By the Living Wage Law

While employers are likely to look only at potential increased costs from the proposed ordinance, they also stand to benefit from the living wage law. A relatively new development in the economics literature is a growing body of work finding benefits to firms which pay above the amount required by either the market or the law. Pay differentials above the norm boost employee morale, which translates into higher productivity. In a similar development, some economists are finding, contrary to previous belief, that increases in the minimum wage law do not produce discernible employment losses or declines in efficiency (Card and Krueger, 1995).

The Ford Motor Company in the early part of the 20th Century provides the most famous case of cost reductions through higher wages. As Professor Robert Pollin notes:

In 1913, the turnover rate at Ford Motors was roughly 400 percent. That means that Henry Ford found himself hiring four times the average number of workers he actually needed to staff production over the course of a year. Rates of absenteeism were similarly high. Recognizing this problem, Ford instituted the \$5.00 a day wage rate for production workers, which amounted to a near doubling of wages at that time. It is now well documented in the professional literature that Ford's bold move led to significant decreases in both absenteeism and turnover. (Pollin, 1998, chap.5, p. 8)

Years later, Ford consistently argued that the \$5/day wage was one of the best cost saving devices he had ever developed. Similarly, the research on the Baltimore living wage ordinance discovered higher wages on contract work had led to higher morale, decreased absenteeism, and decreased labor turnover. These changes, combined with other factors which change a firm's productivity (more careful use of expensive labor, etc.) create a benefit for the firm. Employees who feel their employer values them more (through better pay) are more likely to be punctual, work effectively, and consider the company's best interests.

It would be expected the living wage law would encourage contractors and firms using city financial assistance to become the premier firms in their industries. With better wages and health care coverage, they should attract and retain the best workers, have the most productive work force, and, over time, deliver the highest quality of services. Many firms already practice the high wage route to competitiveness. Since all city contractors would have to compete with the same base line wage and health care benefit levels, the competition for city contracts should result in contracts being awarded to firms that offer the best quality service.

It is impossible to accurately predict the efficiency impact resulting from the living wage in quantifiable terms. Unfortunately, no one has done a close study of the Baltimore case investigating the efficiency gains won from their living wage ordinance. Ideally, a series of studies would be necessary before reliable estimates of likely impact could be made. Nevertheless, wage increases and the newly offered health care benefits will likely result in a higher caliber of worker and measurable increases in efficiency at some level. While the exact magnitude cannot be stated, since the costs appear quite modest any long-term gains could go a substantial way to offsetting the short-term costs.

Benefits to Detroit Residents and Taxpayers

In as much as wage increases do displace public assistance, this would translate into savings for the tax payer. Indeed, the living wage requirements, in part, aim to reduce the situation in which the public subsidizes an employer twice -- first through contracts and

financial assistance, and second through public support for workers paid low wages.

As stated above the average contract worker is likely to gain \$1,312 to \$4,439 per year from the living wage requirements. As a substantial body of economic research has argued, increases in wages have a multiplier effect in the community as the wages are spent. This demand-side multiplier can lead to employment gains. For example, a 1995 study of the effects of a \$16.1 million wage increase for 1565 Food and Commercial workers in Los Angeles estimated that this would generate another \$12.1 million of consumption and 208 jobs through direct and indirect multiplier effects (Ken Blum). Multiplier effects are the strongest among wage increased for the lowest paid, since poor workers need to spend wage gains on immediate needs rather than savings or other actions which take the income out of the community.

Increased wages and the multiplier effect also benefit the city directly by increasing tax revenues. Without living wage levels, the public resources given through tax abatements and other forms of financial assistance are less likely to come back to the city through tax and employment gains. Indeed, recent research on tax abatements and financial aid packages suggests that unless municipalities set wage, employment, and other requirements strategies of tax incentives actually lead to net losses for the community (Lynch 1996, Schweke, Rist, Dabson 1994).

IV. Enforcement

Although the question of the extent to which employers are actually complying with the law was not the focus of the study, the research did conduct sampling among workers employed on city contracts around security and parking work. According to the information provided by workers, several contracting firms which have had their contracts renewed since November 1998 are now in violation of the living wage law. Research in both Baltimore and Los Angeles suggests that employer compliance is a major issue. Our sample findings suggest that this question merits further research specific to Detroit.

V. SUMMARY AND CONCLUSIONS

Using conservative assumptions which likely overstate the actual costs, this study determined the maximum costs to city contractors to comply with the living wage ordinance would be about \$6.9 million or 2.5 percent of the overall funds allocated to the contracted work. Using a worst case scenario and assuming that the ordinance would do nothing but raise costs, these costs still represent less than three tenths of one percent of the city's annual budget. The costs to for-profit employers covered through financial assistance is so far below the averages for city contracts (under 1% of operating budget) as to be outright negligible.

The benefits of a living wage ordinance demonstrate a variety of ways the affected workers and their families, the covered firms, and the citizens and taxpayers of the city would gain. Given the large potential benefits from the ordinance and the rather small price tag, the living wage law appears to have a great deal of merit.

The main arguments against a living wage ordinance appear to have little substance when measured against the empirical outcomes found Detroit and other cities. Specific research on the Baltimore living wage ordinance found little substance to various arguments purporting to show that the very people the ordinance intends to help will actually be harmed. Likewise, the belief that a living wage ordinance will frighten away potential investors appears to have little merit, given the booming state of Baltimore's economy after the ordinance's passage compared to its poor state before. (This of course does not mean that passage of the ordinance was responsible for Baltimore's turnaround; only that there is little evidence that the ordinance provided a "wrong signal" which scared away potential investors.) There has also been no evidence that Baltimore employers laid off less-skilled workers or shrank their proportion of employment due to living wage requirements.

The results of the present study suggest the experience in Detroit will be similar to that of Baltimore and Los Angeles. For every sector of employers covered by the living wage requirements, the maximum costs of compliance were under ten percent of the total contract, with over half experiencing costs of one percent or

less. The investigation of employers covered through Empowerment Zone and industrial facilities tax exemption financial assistance found that all such firms would incur costs under one percent of their operating budgets. Since the actual costs are quite modest relative to the overall budgets of the firms involved, the notion that employers would either reduce employment or not move to the Detroit because of the living wage simply do not appear credible.

The present research found a modest potential impact among the minority of non-profits that receive sufficient public funds to cross the living wage law's \$50,000 threshold. Social service work represents a significant proportion of workers effected by city contracts. Many such organizations experience significant turn over of staff which higher wages could help reduce. However, putting aside potential savings from reduced employee turnover, the costs of complying with the living wage for social service work runs between 5.5 and 6.8 percent of the overall contract. For this situation, the city will need to decide if it expects the relatively modest proportion of non-profits covered by the law to pay for this maximum possible cost themselves. If not, this report suggests several alternatives including the city providing extra funds to cover all such costs. Such an action would cost Detroit under two tenths of one percent of the \$2.5 billion spent annually by the city.

Dept. of Economics at the University of Massachusetts at Amherst. Robert Pollin first developed the methodology used in this study and generously shared his materials with us. The wage, hours, and health insurance information graciously provided by Stephanie Luce helped save a great deal of time. Also thanks to Bruce Nissen for not only sharing his report on the impact of the Miami-Dade County living wage ordinance, but also for providing an electronic version easily adaptable for this report.

TECHNICAL NOTES

As specified in the report, the data used to calculate the portion of covered workers earning below the living wage levels was taken primarily from the Current Population Survey, Outgoing Rotation Group, 1997. However, where more detailed data directed at specific occupations was available, such information was used to adjust the Population Survey figures. In this regard, the National Compensation Survey, Pilot Test, Detroit-Ann Arbor-Flint, January 1997 was especially helpful.

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